United States Department of Energy

Comments of the City of New York Concerning Transmission Congestion Study and Designation of National Interest Electric Transmission Corridors

March 6, 2006

The City of New York (City) hereby submits comments in response to the January 27, 2006 Notice of Inquiry issued by the Department of Energy (DOE or Department), as published in the Federal Register of February 2, 2006. DOE has requested public comments on: 1) the criteria for a forthcoming DOE transmission study, and 2) the possible designation of National Interest Electricity Corridors (NIETCs). These concepts were addressed previously in a Study authored by the Department pursuant to §1221(a) of the Energy Policy Act of 2005 (Act).

Background

The issues raised in the latest Notice of Inquiry are not novel, although the regulatory landscape has changed to a significant degree with the enactment into law of the Act, which vested new transmission powers and responsibilities in DOE and in the Federal Energy Regulatory Commission (FERC).

Efforts to develop merchant transmission lines without untoward financial risk to ratepayers have been addressed in the past by the Secretary of Energy.[1] In practice, however, there have been very few such entrepreneurial projects undertaken, suggesting the need for another model to address the realities of a partially deregulated electricity marketplace.[2] And as DOE and others have noted in the recent past[3] as well as in the current Notice, bulk transmission system investment has in recent years been in decline as compared to earlier periods of grid development, and has notably failed to keep pace with the economic and operational importance of transmission resources.[4] This is particularly true in light of the rapid recent growth in the electricity transmission volume of state and regional transmission organizations – a volume not contemplated when most national grid component

[1] Statement of the Secretary of Energy, PR-02-080, May 8, 2002
[2] The few projects as we have seen developed in recent years in New York State, such as the Cross Sound transmission line and the Neptune HVDC line from New Jersey to Long Island now under construction have resulted from long-term contracts, not from merchant development as such.
[3] DOE Federal Register Notice of July 14, 2004; Notice of February 2, 2006, p. 5660
[4] The declining trend in investment in the bulk transmission system over the last twenty years was specifically noted by the Edison Electric Institute and DOE Report entitled "U.S. Transmission Capacity: Present Status and

elements were designed and built during an era characterized primarily by long-term investments made by vertically integrated utilities.

The facilitation of economic growth and prosperity through transmission system improvements is a goal that has been characterized as "essential"[5] – a view that recognizes the significant costs imposed on consumers by the continued existence of electricity system congestion. This problem is particularly acute in New York City, where electricity costs are among the highest in the nation. The City's comprehensive Energy Policy Task Force Report issued in 2004 recognized that addressing electricity reliability, cost, and environmental concerns will require a multifaceted approach, including greater use of demand side measures, the introduction of additional generation facilities, and importantly, transmission system improvements.[6] To cite another example making this point, the New York City Building Congress recently issued a Report that focuses on the period 2010-2025,[7] and concludes that between 6,000 and 7,000 megawatts of new electricity resources – including transmission facilities – will be needed by the City over the next twenty years.

The conclusion of these and other similar analyses appears inescapable: future transmission development clearly must form an important part of the overall energy supply solution for the City. This will mean both technological improvements to existing pathways and lines, and expansion of the bulk transmission facilities themselves. The 2002 National Transmission Grid Study cited in Appendix A of the Notice contained findings that some of the highest levels of congestion were located within the Eastern Interconnection between the Mid-Atlantic States (*i.e.*, the PJM territory) and New York.

Future Prospects" (2004).

[5] Statement of the Secretary accompanying dissemination of the National Transmission Grid Study (May 2002)

[6] New York City Energy Policy Task Force Report (2004), noting the need for additional transmission facilities at pp 13-15. The Report is accessible at www.nyc.gov/html/om/pdf/energy_task_force.pdf - 2004-01-21. The Notice herein at p. 5661 makes a similar observation concerning the existence of functional alternatives. It remains clear, however, that a greatly enhanced transmission infrastructure will be necessary in New York, as well as in other regions of the country.

Transmission Congestion Study – Criteria Development

DOE states in the Notice herein that a national transmission congestion study will be published by August of 2006, and that public comment thereon will be invited. The City welcomes this proposed schedule as conveying an appropriate sense of urgency to begin the assessment and planning process. Given the long lead times typically required for planning, siting and building large-scale transmission facilities, such a course is well advised.

The Draft Criteria for the planned Congestion Study set out on page 5662 of the Federal Register Notice appear to be sound, and the City supports their inclusion in the Study scoping. The Notice poses a question whether other criteria are needed as well to have a complete and comprehensive study. One critical component must be included: the effect on overall community welfare of enhanced transmission resources, or conversely, the economic dislocation posed by a lack of sufficient electricity importation capacity. In a similar vein, the role of economic development in a currently constrained area is surely a valid criterion when assessing the need for potential remedies for transmission congestion. The imposition of significant economic costs on consumers on either a national, or perhaps more typically, a regional scale is clearly an important consideration in judging the need for transmission facilities.

NIETC Designation for the New Jersey to New York City Corridor

The City of New York should receive priority in the corridor designation process. As noted above, the PJM connection to New York State – and particularly to New York City – is highly constrained as compared to other areas. The City has unparalleled commercial, financial, and general economic importance to the nation, and the unusual degree of dependence that the City has on electricity is both well recognized and a sign of its high efficiency in energy use.

[7] "Electricity Outlook 2010-2025" accessible at www.buildingcongress.com/code/research -2006-overview.htm

New York City is expected to reach a total population of some nine million by 2030,[8] and its total electric load is growing very rapidly. In the summer of 2005, for example, numerous all time records were set by the Con Edison distribution system.[9] This combination of circumstances, particularly when coupled with very high prevailing prices for both energy and capacity, warrants the highest DOE priority to be accorded to an assessment of the transmission needs of the City.

The Department should specifically add the New Jersey to New York City transmission corridor (*i.e.*, PJM PSEG-North to NYISO Zone J) to the inventory of presumptive NIETC designations. This corridor meets all of the noticed draft criteria for a NIETC. New transmission between New Jersey and New York City would have the following primary benefits:

- Increased reliability to both regions
- Heightened national and regional security
- Increased economic electricity transfers from the relatively low-cost PJM market to the extremely high-cost New York City load pocket
- Reduced reliance on antiquated and inefficient generating plants that raise air quality issues in the densely populated New York City urban environment
- Diversity of electric fuel sources for New York City, which at present is overly reliant on an increasingly constrained natural gas supply system

The "System Reliability Assurance Study" (SRAS) prepared by Consolidated Edison Company of New York in December 2005 concluded at page 11 that "transmission from PJM with firm generating capacity… appears to be cost effective" in comparison to the full range of demand- and supply-side options available at the City and State levels. USDOE should examine the Con Edison

[8] Demographic projections reported in the New York Times at Section 1, p. 33 (February 19, 2006)

[9] These included a peak summer load of more than 13,000 MW, the highest electricity sendout, highest monthly and weekend electricity use, highest summer gas usage, and 7 of the 10 highest demand days in the 123 years that the company has been in existence were experienced in the last year. Source: Con Edison company news releases

study as part of the NIETC process. A copy of the complete SRAS is included as an attachment to these Comments.

Two private transmission developers have submitted NYISO interconnection requests for the New Jersey to New York City corridor; however, it appears that neither of these projects is likely to move forward on a merchant basis.[10] If the corridor were to receive NIETC designation, it would provide a valuable impetus for such projects.

NIETC designation for the NJ-NYC corridor would also provide a critical link to the current PJM plans to upgrade the corridor from western Pennsylvania to northern New Jersey, and to AEP's plans to build the Mountaineer transmission Project from West Virginia to Deans Station, New Jersey. Extending these projects by the relatively short distance (some 20 to 30 miles) into New York City would benefit the City and entire Northeast United States.

In general, upgrading the New Jersey to New York City corridor has not been the subject of sufficient study by the ISOs or the transmission owners. The planning studies conducted by PJM and NYISO generally focus on their own respective territories. The upcoming USDOE study provides an opportunity to provide coordinated planning for the interface between the NYISO and PJM, and to thereby provide a truly integrated solution to current system constraints.

The Role of the Department of Energy

As explained in the Notice, the Department is weighing a number of approaches to establishing an inventory of geographic areas in the Eastern and Western Interconnections that have critical current or future needs, and invites commenting parties to suggest focus areas for Departmental review. The City of New York should clearly receive priority in the corridor designation process. As noted above, the PJM connection to New York State – and particularly to New York City – is highly constrained as

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of July 27, August 1, and September 4, 2005, accessible at www.coned.com/newsroom

[10] See *e.g.*, footnote. 2, page 2 herein concerning the critical role of contracts in facilitating transmission projects

compared to other areas. Moreover, the degree of dependence that the City has on the electricity system is well recognized, and the City's overall economic importance is unparalleled. Security concerns in New York City in the wake of the 9/11 terrorist attacks also argue in favor of additional transmission resources that will provide some measure of system redundancy. Given the broad portfolio of generation assets in PJM, generation fuel diversity would also be enhanced.

All of the foregoing circumstances, particularly when coupled with very high prevailing prices for both energy and capacity, strongly suggest that the highest DOE priority should be accorded to an assessment of the transmission needs of the City, and priority treatment for a NIETC there.

In practice, there must ultimately be developed a functional responsibility for state and federal regulators, as well as for representatives of regional transmission organizations and independent system operators. In addition, there must be recognition of overarching transmission system needs at the regional and national levels. And throughout the period of transmission assessment contemplated by the Notice here, the Department (and FERC in its coordinate role on such issues as transmission development incentives) must incorporate the recognition that the welfare of the public at large will not necessarily coincide with the parochial concerns of some incumbent participants in the transmission system.

There have been developments in transmission technology that may serve to make new infrastructure proposals more economically attractive and more acceptable, even in densely populated areas, such as the City of New York. The use of controllable HVDC lines can both benefit reliability and enhance the attractiveness of transmission investments to the extent that they can qualify for the greater capacity payments made available under a locational based pricing model in certain highly constrained areas. The City, NYISO Zone J, is one such area. These considerations should inform any proposed answers to the issues identified in the Department's planned Congestion Study.

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undertaken to date in New York.

Under the Energy Policy Act, the DOE Secretary has been given authority to designate transmission corridors of national interest, and to thereby address issues that go beyond the borders of any one state or combination of states. The Department should under the existing national energy policy assume a coordination role through the new jurisdictional authority it has been given under the Act. Such participation by DOE (and where applicable, other relevant entities such as FERC) will best address the inevitable regional and national transmission concerns that transcend traditional state jurisdiction, and that recent experience has shown cannot be left solely to market forces.

As the lead agency for the formulation of a sound national energy policy, DOE is well positioned to assert a leadership role in this area that remains consistent with the jurisdictional scope of other entities. The City welcomes the active role of the Department in making congestion assessments under the broad criteria established in the Notice and as further suggested herein, and in the designation of transmission corridors that will enhance the public welfare both in New York as the nation's preeminent financial and commercial center, and in the nation at large.

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Respectfully submitted,

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